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FM AMEMBASSY LA PAZ  
TO RUEHC/SECSTATE WASHDC 2837  
INFO RUEHAC/AMEMBASSY ASUNCION 6638  
RUEHBO/AMEMBASSY BOGOTA 3961  
RUEHBR/AMEMBASSY BRASILIA 7846  
RUEHB/AMEMBASSY BUENOS AIRES 5096  
RUEHC/AMEMBASSY CARACAS 2326  
RUEHPE/AMEMBASSY LIMA 2435  
RUEHMD/AMEMBASSY MADRID 3380  
RUEHM/AMEMBASSY MONTEVIDEO 4488  
RUEHQ/AMEMBASSY QUITO 4968  
RUEHS/AMEMBASSY SAN JOSE 1621  
RUEHSG/AMEMBASSY SANTIAGO 9554  
RUEHUB/USINT HAVANA 0218  
RHMFIUU/HQ USSOUTHCOM MIAMI FL  
RUMIAAA/USCINCSO MIAMI FL  
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC  
RHEHNSC/NSC WASHINGTON DC

UNCLAS LA PAZ 000715

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STATE FOR WHA/AND LPETRONI  
BRASILIA FOR JSTORY  
SAN JOSE FOR BLINK  
USAID/LAC FOR JBISSON  
USAID/EGAT FOR DMULLER AND CELRON  
USAID/BOGOTA FOR BBAYLE  
COMMERCE FOR JANGLIN

E.O. 12958: N/A

TAGS: SENV ECON PGOV BL

SUBJECT: REAPING THE REWARDS OF THE CLEAN DEVELOPMENT  
MECHANISM

REF: A. LA PAZ 661  
1B. LA PAZ 695

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SUMMARY  
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11. (U) Bolivia hopes to mitigate the potential impact of climate change (reflets) by taking advantage of the Kyoto Protocol's clean development mechanism, which allows industrialized countries committed to greenhouse gas reductions to invest in emission reduction projects in developing countries. According to GOB officials, Bolivia seeks to position itself as a key project host, in hopes of attracting investment and generating revenue from the sale of resulting certified emission reduction credits. While an admirable goal, regulatory uncertainty has slowed its implementation. End summary.

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THE CDM: WHAT IT IS AND HOW IT WORKS  
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12. (U) The clean development mechanism (CDM) is a Kyoto Protocol arrangement allowing industrialized countries with greenhouse gas reduction commitments to invest in developing country emission reduction projects as an alternative to what are generally assumed to be more costly emission cuts at home. To qualify as a CDM project, proposals must contribute to sustainable development in the host country and facilitate the stabilization of atmospheric concentrations of greenhouse gases.

13. (U) An industrialized country seeking approval of a CDM

project must meet host country sustainable development criteria and demonstrate that the project is not something that would have happened anyway, while establishing a baseline estimate of the greenhouse gases that would have been emitted in the project's absence. After validation by a designated third party, the CDM executive board considers the proposal. Approved and implemented projects may receive certified emission reduction (CER) credits based on the measured difference between baseline and actual greenhouse gas emissions; CER holders may then sell their credits (one CER is defined as one metric ton of carbon dioxide equivalent) in a variety of emerging carbon markets.

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BOLIVIA: A KEY CDM HOST COUNTRY  
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**¶14.** (U) According to National Climate Change Program staff, Bolivia seeks to position itself as a leading developing country host of CDM projects, in hopes of attracting investment and generating revenue from the sale of resulting certified emission reduction credits. Program coordinator Gisela Ulloa told Econoff March 6 that companies have proposed approximately 25 ventures in sectors as varied as reforestation, energy, and waste handling. In one, a company plans to install and operate a gas extraction and flare system at a Santa Cruz landfill, thereby preventing methane, a powerful greenhouse gas, from escaping into the atmosphere.

In another, an organization hopes to promote the reforestation of several thousand hectares of land (and a corresponding increase in carbon dioxide capture) in the department of Cochabamba.

**¶15.** (U) Ulloa said she believed projects like these could significantly reduce greenhouse gas emissions and help mitigate the effects of climate change. She noted that the forestry and energy sectors present especially attractive emission reduction opportunities for industrialized countries: afforestation (the direct human-induced conversion of non-forested to forested land) and forestation activities have an estimated emission reduction potential of 35 million metric tons of carbon dioxide between now and 2012, and energy sector activities have an additional average annual emission reduction potential of 1.8 million metric tons. According to Ulloa, transportation, manufacturing, and construction may also present interesting greenhouse gas reduction opportunities.

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THE CATCH: REGULATORY UNCERTAINTY  
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**¶16.** (U) However admirable the goal of becoming a key host of CDM projects, domestic regulatory uncertainty has limited Bolivia's ability to attract investors in emission reduction projects. As it stands, each venture is different, with individual firms forced to negotiate the division of CER credits with GOB officials; percentage shares vary across and within sectors, and companies find it difficult to rely on precedent to build their arguments. Political uncertainty has delayed the passage of a law establishing basic guidelines, and officials expect little movement, as Bolivia's attractiveness as a CDM host appears to be low on the government's list of priorities.

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COMMENT  
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**¶17.** (U) Bolivia's drive to reap the rewards of the clean development mechanism may be off to a slow start, but its early experience has proven useful. Bolivian companies have acquired more sophisticated technologies, and the rigorous CDM approval process has boosted transparency and encouraged greater public-private cooperation. End comment.

GOLDBERG